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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 000579

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SUBJECT: I AM THE STATE: HONDUTEL MANAGER REMAINS MAIN
OBSTACLE TO REAL REFORM IN HONDURAN TELECOM

Classified By: Classified by Ambassador Charles Ford for reasons 1.4 (B
,D)

¶1. (C) SUMMARY: While a new telecommunications law to liberalize the market remains stalled in the Honduran Congress, the battle to control the lucrative margins in international calling continues. Hondutel, the state telecoms operator, has aggressively pursued companies charged with pirating calls; others have accused Hondutel of being the worst violator. At the center of the controversy lies Hondutel operations director Marcelo Chimirri, the front man in a high profile offensive against illegal international calls. With family relationships and friends inside the President's inner circle, he seemingly operates above the law and freely declares "I am the State." Recently more information has surfaced on his shady activities that may help finally implicate him. END SUMMARY.

ROLLING UP COMPETITORS ONE BY ONE

¶2. (C) Marcelo Antonio Chimirri Castro, (DOB May 3, 1966; POB: Argentina) a citizen of Honduras, Argentina and Italy, first began his tenure as the second-in-command at Hondutel by looking to cancel licenses that were not being actively used by companies in Honduras. After complaints by several U.S. companies, EconChief and EconOff visited Chimirri and then Hondutel Chief Jacobo Regalado in July 2006 to investigate claims that they were eliminating competition by revoking licenses. Chimirri and Regalado responded that these licenses were just being held for speculation and they were keeping them out of the black market. (COMMENT: Their logic never really rang true) licenses were awarded to companies based on technical and financial merits and wouldn't be bought or sold on the secondary market. END COMMENT).

¶3. (C) While few companies were being allowed to begin operations, even the existing companies in the market have come under siege. In a stated effort to reduce Hondutel's losses through grey line traffic (or fraudulent international calls, mainly run through the internet), Chimirri mounted a high-profile campaign to identify, invade and close down companies suspected of participating in the fraud. Based on a pattern of grey line calling, Chimirri would notify the Public Ministry (Attorney General's office), literally pick up a prosecutor and several police on the way to a company site, then invade the business and confiscate the equipment

) many times armed himself with a semi-automatic weapon and bullet proof jacket. Over a 12 month span Chimirri invaded approximately 50 companies, confiscating and holding company equipment at Hondutel facilities (COMMENT: While it is true the signature of grey line traffic is relatively easy to spot, and Hondutel would have the ability to spot it, it remains a major conflict of interest to have one competitor police another. END SUMMARY).

ONE COMPANY TOO MANY

14. (C) It was on the 51st company that Chimirri began to face problems. As in the past, Chimirri "identified" the clear signature of grey line traffic, then rounded up his prosecutor and police to invade a company named Pronto in San Pedro Sula. Pronto, however, was owned by a powerful business family, the Kattans, whose members ranged from the head of a manufacturing association to a leading opposition party congressman. The Kattans went to court and won a decision against Hondutel, which was ordered to return the confiscated equipment. While Chimirri and Hondutel defied the first attempt by the Public Ministry to retrieve the equipment, it was eventually returned to Pronto. Experts are now rechecking the equipment for signs of grey line traffic and should have a report ready by mid-April.

15. (C) With the Public Ministry under fire for allowing Chimirri to forcefully invade the companies (NOTE: and after a call from Ambassador to Attorney General Leonidas Rosa Bautista. END NOTE), the Ministry held a meeting among the parties in an attempt to reconcile their differences. Stating defiantly "Marcelo Chimirri, I am the State," Chimirri went on to describe how Hondutel has the right to pursue and decommission companies that they believe are

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fraudulently using their network. When that effort failed to bring a resolution, tensions later escalated until a series of sharp exchanges between Chimirri and Rosa Bautista on TV brought the matter directly to Congress. (COMMENT: Rosa Bautista, not known for taking on organized crime or political chieftains, appeared an unwillingly participant throughout the unfolding drama. END COMMENT).

16. (C) In a circus-like setting in front of the national Congress, Chimirri defended his actions while opposition Congressman heaped accusations on Hondutel management. The result was a surprising unanimous decision by a normally heavily partisan Congress to investigate Chimirri's activities. Chief among their demands was to investigate over a dozen new contracts with international carriers that contained low (and seemingly unsupportable) per minute rates (NOTE: The implication was that the contracts were negotiated with kick-backs. END NOTE). Congress also demanded to know why Chimirri had installed, through Hondutel, fiber optic capacity to his upscale home outside of Tegucigalpa equivalent to a mid-sized bank. (COMMENT: The Public Ministry has focused on abuse of power as the principal charge in this case, given Chimirri's role in authorizing the lines to his house. The enormous capacity could also indicate that Chimirri is running his own grey line operation, literally in-house. END COMMENT).

EXTORTION: A WINNING BUSINESS STRATEGY

17. (C) With the Kattan case in the headlines, more information on Chimirri's role in grey line traffic has emerged. Carlos David Flores, son of ex-President Carlos Flores, described to EconOff how he and fellow investors were personally extorted by Chimirri when his company approached Hondutel about obtaining a license. In order to approve the license, Chimirri asked directly "what is in it for me?" The team left without an agreement. (COMMENT: When Carlos David described his encounter with Chimirri to his father, the ex-President immediately called President Zelaya to complain. Interestingly, Flores comment to Zelaya was to "keep

Chimirri away from my family." Fear of Chimirri and what he might do is a common refrain in the industry. END COMMENT).

¶8. (C) The ex-President of telecom regulator CONATEL was also a victim of Chimirri's extortion. After having served at CONATEL under ex-President Maduro, Jose Renan Caballero left to join a U.S. company, and advocated on the company's behalf at Post several times. In February 2007, Caballero suddenly resigned. To EconOff, Caballero described how his company had agreed to pay off Chimirri in order to obtain a lower per call rate to terminate international calls. (COMMENT: Caballero's former company is one of the dozen international carriers under investigation for having low, seemingly arbitrary per minute rates. END COMMENT).

¶9. (C) AMNET cable company, a subsidiary of U.S. company Amzak International, was also threatened by Chimirri. AMNET's country manager and top technical rep met with EconOff April 3 and played a taped conversation in which Chimirri said he would "make it difficult" for the company if they didn't vacate a certain market area that overlapped his own business interest. Given that Chimirri could delay or cancel AMNET's telecommunications capacity, or worse invade the company, the company reps have basically decided that it would be in their best interests to do so. (COMMENT: Several sources have confirmed that Chimirri is clandestinely running a small cable company in Tegucigalpa named TeleColor. Oddly, the company has only a few thousand customers in a poor area of Tegucigalpa, yet runs a state-of-the-art network. Some have speculated that Chimirri makes the business profitable by using confiscated equipment and channels sent illegally by CableColor, an AMNET competitor owned by business magnate Jaime Rosenthal. Others believe the cable operation is just a front for a massive grey line operation that terminates calls over CableColor. The Public Ministry has been alerted to TeleColor, and has told EconOff that they anticipate raiding the company within the next two weeks. END COMMENT).

¶10. (C) Even Attorney General Bautista was not untouched by the controversy. In the days following his sharp exchange with Chimirri, Bautista received a call at his residence by a

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person that specifically threatened his family. The caller did not state a motive, but in an April 2 meeting with Ambassador and EconOff, Bautista said that he believed the call came from a Hondutel insider based on caller ID information (NOTE: After two years in office this is the first direct threat made against Bautista. He stated clearly to Ambassador and EconOff that the timing of the threat and his actions against Hondutel was not coincidental. END NOTE).

¶11. (C) SUMMARY: Given the artificially high international rates supported by Hondutel, and the near zero cost for terminating calls illegally over the internet, grey line trafficking is a huge and profitable business. As the operations chief at Hondutel, Chimirri sits at the controls of a lucrative empire that specializes in kick-backs and extortion while stalling any real reform in the sector. END SUMMARY.
FORD